Palo Alto, California
October 17, 1997

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RECEIVED

Mr. David S. Guzy, Chief
Rules and Publications Staff
Royalty Management Program
Minerals Management Service
P. O. Box 25165, MS 3101
Denver, CO 80226-0165

Re: Royalty Valuation, Location and Quality Differentials

Dear Mr. Guzy:

I am an individual land, royalty, mineral and working interest owner in West Texas property, an 8500 acre ranch with more than 300 producing oil wells. I have been a member of the National Association of Royalty Owners since the time of the Windfall Profits Tax. I am a class member in the proposed Mobil Settlement on royalty valuation arrived at in the Circuit Court of Escambia County, Alabama.

MMS has asked specifically for comments on location and quality differential in Nymex-based valuations. I enclose the "Prospective Relief" section of the Mobil Settlement summary sent to the class members, which speaks of these differentials, and I am trying to determine if the full text of the Mobil Settlement, and also of the Chevron Settlement, both Nymex-based with location differentials, have expanded details of the differentials. I recognize you may have these details already.

I urge the MMS to make use of such settlement details to further fashion your Nymex-based proposal where appropriate, and to reject the Royalty-in-Kind valuation suggestions, so that an equivalence or consensus is reached between Federal rules and legal settlements, which will bring a national settlement to royalty valuation rather than prolong the controversy, which an RIK approach would certainly do, and which I believe is designed to do, to prolong the agony of unfair pricing under posted-price usage, which continues on and on for every royalty and working-interest owner, as time goes by, and by.

Taking royalty in kind is a basic right of lessors, and a valuable negotiating tool where the lessor is not getting a fair competitive price, but it is a LAST RESORT where all other attempts to secure a fair price have failed. MMS has the ability and is making progress to set a fair-price standard not only for Federal leases but a standard which will be a benchmark for the private sector. I urge you strongly not to allow your present proposal to be abandoned or delayed. As an individual royalty owner I am arguing for my self-interest. As a citizen I am arguing for a fair deal for all the citizens of the United States, who are the ultimate owners and beneficiaries of the Federal lands.

Very truly yours,

Preston C. Burchard

Preston C. Burchard
3891 Magnolia Drive
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(650) 857-0127
phone and fax

Excerpt from Mobil Settlement summary sent to class members:

3. Prospective Relief. Commencing with the first calendar month following the Effective Date of the Settlement:

(1) Mobil will calculate the basis for payment of all non-governmental crude oil and condensate royalty (including override) and/or working interests in the United States except for California and Alaska pursuant to the following Settlement Basis. The Settlement Basis will start with so-called "NYMEX Plus" (Factor A) plus or minus factors as follows: (B) *minus* inventory holding costs to the extent those inventory holding costs are incurred as a result of marketing the lease crude oil; (C) *plus or minus* the applicable average of Platt's published Cushing-to-market-center differential applying to crude oil types and locations for which this Settlement Basis will be used, such average differential to be determined by averaging together the differentials for each trading day and non-trading day published during the applicable calendar month of delivery (for the non-trading days the value is averaged at the same value as the previous trading day), provided that, if Platt's does not publish an applicable Cushing-to-market-center differential, the actual differential obtained by Mobil for crude oil of the same or similar location and type will be applied, expressly subject to these exceptions:

(i) for crude oils from Anshutz Ranch (Utah), East Texas, Bonito Sour (Louisiana), High Island Offshore Texas, Salt Creek (Texas) and Tip Top (Wyoming), Mobil will use its actual costs for the Cushing-to-market-center differential;

(ii) for Hough crude oil Mobil will pay on the same basis that it pays the State of Oklahoma;

(D) *minus* the lowest common carrier pipeline published tariff for both gathering and mainline transport for pipeline connected leases. For trucked leases, the gathering cost component is replaced by Mobil's appropriate local trucking costs; (E) *minus* Mobil's actual cost per barrel (currently estimated at $0.17 per barrel) representing accounting, transportation service, and transaction costs; and (f) *minus* an API gravity adjustment (if actually incurred and in accordance with typical arms' length practices in the area, if known) if actual lease crude gravity is higher or lower than the accepted range of API gravity assumed in the market center price (Factor C). The NYMEX Basis for Factor A is determined by averaging the prompt month light sweet crude oil NYMEX settle prices as published by the New York Mercantile Exchange every day during the month of delivery, with the value for non-trading days included in the average at the same value as the previous trading day. The NYMEX Basis will then be added to the Plus portion of Factor A. The Plus portion of Factor A is determined as the average of the Time Strip values calculated daily for each trading day during the trading period when the delivery month is the prompt month on the NYMEX by the formula: Time Strip = $2/3(M_1 - M_2) + 1/3(M_1 - M_3)$ where M_1 = the light sweet crude oil settle price of the 1st (prompt) NYMEX month; M2 = the light sweet crude oil settle price of the 2nd NYMEX month; and M3 = the light sweet crude oil settle price of the 3rd NYMEX month.

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7 page fax incl. this page

Palo Alto, California
October 21, 1997

Mr. David S. Guzy, Chief
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Minerals Management Service
P. O. Box 25165, MS 3101
Denver, CO 80225-0165

Re: Royalty Valuation, Location and Quality Differentials

Dear Mr. Guzy:

I enclose the "D" section of the Chevron Settlement summary sent to prospective class members in May, 1997, containing reference to locality and quality differentials. Fax copy was furnished by the General LAND Office of Texas. I request that these four pages be added to my comment sent last week by surface mail, which you should have received by now.

I am sending this by fax to assure meeting the October 22nd deadline for comments, and for your quick reference I am including my original comment of date October 17 where I got the last digit of the Zip Code to be 6 instead of 5.

Yours truly,

Preston Burchard

Preston Burchard

PRESTON BURCHARD
3891 Magnolia Drive
Palo Alto, CA 94306

D. Chevron's agreement to use the Agreed Royalty Valuation in calculating future payments

The Settlement Agreement includes provisions which, so long as they are in effect, would bind Chevron (and its successors and assigns) to make, and Settlement Class Members (and their successors and assigns) to accept, future royalty and overriding royalty payments that are calculated by using the "Agreed Royalty Valuation." As set forth in the Settlement Agreement, the Agreed Royalty Valuation provides for specified per-barrel valuations of crude oil and condensate production, on Texas properties in which Settlement Class Members own interests.

Under the Agreed Royalty Valuation, royalty and overriding royalty payments by Chevron to Settlement Class Members will be calculated as follows:

(a) Definitions. In calculating the Agreed Royalty Valuation, the following definitions will apply:

"WTI" means West Texas Intermediate, and "WTS" means West Texas Sour.

For a given calendar month of production, "Nymex" is the average of the trading-day Nymex futures settlement prices quoted during that month, for the Domestic Sweet Crude Oil contract (i.e., WTI at Cushing, OK) for the prompt month.

For a given calendar month of production, "Platt's WTI Cushing" is the average of the trading-day mean prices during that month, for WTI delivered to Cushing, OK, as assessed in Platt's Oilgram Price Report for the prompt month.

For a given calendar month of production, "Platt's WTI Midland" is the average of the trading-day mean prices during that month, for WTI delivered to Midland, TX, as assessed in Platt's Oilgram Price Report for the prompt month.

For a given calendar month of production, "Platt's WTS Midland" is the average of the trading-day mean prices during that month, for WTS delivered to Midland, TX, as assessed in Platt's Oilgram Price Report for the prompt month.

(b) Royalty on pipeline-gathered crude oil. Royalty and overriding royalty on pipeline-gathered crude oil will be calculated on the following basis:

WTI = (Nymex)
- (Platt's WTI Cushing – Platt's WTI Midland)
- (50¢)

WTS = (Nymex)
- (Platt's WTI Cushing – Platt's WTI Midland)
- (Platt's WTI Midland – Platt's WTS Midland)
- (50¢)

Yates (Sour)	=	(Nymex) - (Platt's WTI Cushing - Platt's WTI Midland) - (Platt's WTI Midland - Platt's WTS Midland) - (25¢)
East Texas Field & Other East Texas Sweet	=	(Nymex) - (Platt's WTI Cushing - Platt's WTI Midland) - (75¢)
North Texas Sweet	=	(Nymex) - (Platt's WTI Cushing - Platt's WTI Midland) - (50¢)
South Texas Light Sweet	=	(Nymex) - (Platt's WTI Cushing - Platt's WTI Midland) - ($1.00)
Texas Gulf Coast (Onshore)	=	(Nymex) - (Platt's WTI Cushing - Platt's WTI Midland) - (75¢)
Texas Gulf Coast Low Cold Test	=	(Nymex) - (Platt's WTI Cushing - Platt's WTI Midland) - (75¢)

(c) Additional 25¢/bbl deduction for trucking. There will be an additional deduction of 25¢ per barrel for crude oil that is gathered by truck. For example, the ¢/bbl deduction for WTI gathered by pipeline is 50¢; so 75¢ will be the ct/bbl deduction for WTI gathered by truck.

(d) Adjustment of the fixed ¢-per-barrel deductions for inflation or deflation. The fixed ¢-per-barrel deduction, including the deduction for trucking, will be increased or decreased annually in accordance with the Federal Energy Regulatory Commission's then-current indexing methodology for adjusting oil pipeline rates; provided, however, that 25¢/bbl of the fixed ¢-per-barrel deduction for quality/location for East Texas and South Texas Sweet crude oil will not be subject to this adjustment. The current Federal Energy

Regulatory Commission index is the change in the Producer Price Index for Finished Goods minus one percent (1%). The first such annual adjustment will not be made before January 1 following 365 days after the Effective Date.

(e) Gravity adjustments. The Agreed Royalty Valuation will be subject to gravity adjustment in accordance with then-current gravity adjustment scales that are included in Koch Oil Company's posted price bulletins. In the event Koch Oil Company does not post a gravity adjustment scale for a specific crude type, the Settling Parties agree to use the following ¢-per-barrel gravity adjustment scales: deductions of 2¢ per 1° API gravity in the case of sweet crudes, deductions of 1.5¢ per 0.1° API gravity in the case of sour crudes, and deductions of 1.5¢ per 0.1°API gravity above 45° API gravity for both sweet and sour crudes. Chevron will notify royalty and overriding royalty owners in the event that there is a change in the gravity scales used in this royalty valuation methodology.

For purposes of making gravity adjustments, the base reference API gravity will be 40° for WTI, North Texas Sweet, East Texas Sweet and South Texas Light Sweet, and Texas Gulf Coast (Onshore); 33° for WTS; and 30° for Yates (Sour). The value for Texas Gulf Coast Low Cold Test crude will be "flat" (no gravity adjustment).

Notwithstanding the preceding paragraph, effective January 1, 1998 and each January 1 thereafter while the Agreed Royalty Valuation is in force, the reference gravity for WTS will be adjusted to reflect the average gravity of WTS crude oil delivered from ARCO Pipe Line Company Midland during the previous calendar year (provided such data is available). Chevron will give notice to royalty and overriding royalty payees of any changes in the reference gravity for WTS that are made pursuant to this paragraph.

(f) Proceeds from outright sales. When Chevron makes an outright arm's-length sale at the lease (that is, a sale by Chevron to a third party that is not part of an exchange or related buy/sell agreements), Chevron will pay royalties based on its actual proceeds received from the sale at the lease. In such instances, Chevron will not use the pricing methodology described above.

Settlement Class Members will be deemed to agree to accept Chevron's use of the Agreed Royalty Valuation as the appropriate per-barrel valuation, so long as the Agreed Royalty Valuation is in place pursuant to the Settlement Agreement. The Agreed Royalty Valuation will be in place for 10 years after final judical approval of the Settlement Agreement, subject to the following:

(1) If, after at least 3 years, Chevron reaches a good faith conclusion that the Agreed Royalty Valuation no longer provides a reasonable measure of fair market value at the lease, then it may give 60 days' prior notice that it will no longer calculate royalty and overriding royalty payments using the Agreed Royalty Valuation. In that event, neither party will thereafter be bound to pay, or accept, any valuation set forth in the Settlement Agreement.

(2) If, after at least 3 years, the Commissioner of the Texas General Land Office ("GLO") reaches a good faith conclusion that the Agreed Royalty Valuation no longer provides a reasonable measure of fair market value at the lease, then the GLO (on behalf of Chevron's then-current royalty and overriding payees on Texas production) may request Chevron to re-negotiate a different per-barrel valuation methodology, to be applied prospectively. If Chevron and the GLO do not reach agreement, then the GLO may invoke arbitration proceedings to determine whether or not the Agreed Royalty Valuation should be amended for the remainder of the period in which the Agreed Royalty Valuation would otherwise be effective under the Settlement Agreement. The questions for arbitration will be (i) whether the Agreed Royalty Valuation continues to provide a reasonable measure of fair market value at the lease, and (ii) if it does not, how should the Agreed Royalty Valuation be amended in order to provide for a reasonable measure of fair market value at the lease. If the arbitrators' decision is not accepted by the parties to the arbitration, they shall attempt to resolve the dispute for an additional 30 days. If the parties still have not resolved the dispute, then Chevron or the GLO may file suit to determine whether the agreed-upon methodology or the methodology selected by the arbitrators, if different, provides a more reasonable measure of fair market value at the lease.

(3) During the period in which Chevron is obligated to use the Agreed Royalty Valuation, each Settlement Class Member (and his successors and assigns) may elect to take royalty oil in kind, by giving Chevron 60 days' prior notice. In order to exercise this option to take in kind, the Settlement Class Member must take the royalty oil in question for no less than 6 months. If a Settlement Class Member takes royalty oil in kind, it will be his reponsibility to arrange for and bear all of the costs from the wellhead that are associated with gathering, transporting, treating and marketing the royalty oil that is taken in kind. If a Settlement Class Member terminates a prior election to take royalty oil in kind, Chevron will at that time have the choice of either (a) calculating prospective royalty payments using the Agreed Royalty Valuation or (b) giving written notice of its election that neither party will thereafter be bound to pay, or accept, any valuation set forth in the Settlement Agreement.

E. Litigation expenses, attorneys' fees, and costs of notice and administration